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ACTION AF-00

INFO	LOG-00	NP-00	AGRE-00	AID-00	AMAD-00	ACQ-00	CIAE-00
	DODE-00	SRPP-00	DS-00	EB-00	EUR-00	VC-00	H-01
	TEDE-00	INR-00	IO-00	LAB-01	L-00	VCE-00	AC-01
	NSAE-00	OIC-02	OMB-01	OPIC-01	PA-00	PM-00	PRS-00
	ACE-00	P-00	SP-00	IRM-00	STR-00	USIE-00	PMB-00
	DSCC-00	PRM-01	DRL-02	G-00	NFAT-00	SAS-00	/010W

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FM AMEMBASSY HARARE
TO SECSTATE WASHDC PRIORITY 7309
INFO NSC WASHDC PRIORITY
DEPT OF TREASURY WASHDC
USDOC WASHDC
SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

C O N F I D E N T I A L SECTION 01 OF 02 HARARE 005677

SIPDIS

NSC FOR SENIOR AFRICA DIRECTOR GAYLE SMITH
USDOC FOR DHENKE-ROGERS
LONDON FOR CGURNEY
PARIS FOR BISA WILLIAMS
PASS USAID FOR AFR/SD - DWELLER, AFR/SA - CPALMA,
NNEWMAN, AA/AFR - VNEWTON, AND A/AID - RMCCALL

PASS USTR - ROSA WHITAKER

E.O. 12958: DECL 10/06/10

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TAGS: PGOV PHUM EAGR PREL EAID ZI
SUBJECT: BLEAK WORLD BANK ASSESSMENT OF PROSPECTS FOR
GOVERNMENT OF ZIMBABWE IMPLEMENTING SOUND ECONOMIC
POLICIES

CLASSIFIED BY AMB MCDONALD. REASONS 1.5 (B) AND (D).

1. (C) SUMMARY: DESK OFFICER, IN HARARE ON AN
ORIENTATION TRIP, AND ECONOFF MET WITH ROGIER VAN DEN
BRINK, WORLD BANK DEPUTY RESIDENT REPRESENTATIVE AND
SENIOR ECONOMIST IN HARARE ON OCTOBER 5 TO OBTAIN HIS
PERSPECTIVE ON THE ECONOMIC SITUATION IN ZIMBABWE. VAN
DEN BRINK MADE CLEAR DURING THE MEETING THAT THE
GOVERNMENT OF ZIMBABWE (GOZ) WAS NOT TAKING THE STEPS
NECESSARY TO RESOLVE THE COUNTRY'S SERIOUS ECONOMIC
PROBLEMS. JUST THIS WEEK, ZIMBABWE WAS PLACED IN NON-
ACCRUAL STATUS BY THE WORLD BANK FOR NOT MAKING PAYMENTS
FOR SIX MONTHS. THIS STATUS PUTS ZIMBABWE AT THE BOTTOM
RANKING OF COUNTRIES WITH THE WORLD BANK, INCLUDING
LIBERIA, IRAQ, AND BURMA. VAN DEN BRINK DOES NOT EXPECT
ANY DRAMATIC CHANGES IN ECONOMIC POLICIES FROM THE GOZ,
BECAUSE TOP GOZ OFFICIALS VIEW ZIMBABWE'S ECONOMIC
PROBLEMS AS LARGELY BEING THE RESULT OF A BRITISH
CONSPIRACY. END SUMMARY.

ALL WORLD BANK PROJECTS SUSPENDED

2. (C) ROGIER VAN DEN BRINK, THE WORLD BANK'S DEPUTY
RESIDENT REPRESENTATIVE IN HARARE, TOLD DESK OFFICER AND
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ECONOFF ON OCTOBER 5 THAT ALL EIGHT OF THE WORLD BANK'S
PROJECTS IN ZIMBABWE HAVE BEEN SUSPENDED BECAUSE OF NON-
PAYMENT, AND ZIMBABWE HAS ENTERED INTO NON-ACCRUAL
STATUS. THIS PLACES ZIMBABWE AT THE BOTTOM OF THE WORLD
BANK RATING SYSTEM FOR FINANCIAL WORTHINESS, IN THE
COMPANY OF STATES SUCH AS LIBERIA, IRAQ, AND BURMA, AND
MEANS THAT ZIMBABWE IS NOW LARGELY ISOLATED FROM
INTERNATIONAL FINANCING. VAN DEN BRINK SAID HIS OFFICE
WAS NOT CURRENTLY PURSUING NEW STRATEGIES TO HELP THE
GOZ OUT OF ITS CURRENT DIRE ECONOMIC PLIGHT, AS THE GOZ
KNOWS THE ECONOMIC ACTIONS THAT NEED TO BE TAKEN, BUT IS
NOT TAKING THEM.

DOING EVERYTHING WRONG

3. (C) VAN DEN BRINK STATED THAT THE GOZ MILLENIUM
ECONOMIC RECOVERY PLAN WAS NOT WELL THOUGHT OUT, AND
THAT ACTIONS ARE BEING TAKEN BY THE GOZ FOR POLITICAL
REASONS THAT ARE FURTHER DAMAGING THE ECONOMY. THESE
INCLUDE THE FAILURE TO MOVE FORWARD ON PRIVATIZATION OF

PARASTATALS, THE MUSHROOMING GOVERNMENT DEFICIT, AND ARTIFICIALLY SUPPRESSING THE INTEREST RATE TO SPUR ECONOMIC GROWTH. HE INSISTED THAT THE MINISTRY OF FINANCE ECONOMIC TEAM KNOWS WHAT NEEDS TO BE DONE FOR A SOUND ECONOMIC PROGRAM, BUT APPARENTLY IS BEING PREVENTED FROM TAKING CRUCIAL STEPS BY OTHER MINISTERS AND PRESIDENT MUGABE.

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DEVALUATION OF THE ZIM DOLLAR

14. (C) AN EXAMPLE OF COUNTERPRODUCTIVE ACTIONS BEING TAKEN BY THE GOZ IS THE CRACKDOWN ON THE PARALLEL CURRENCY MARKET. VAN DEN BRINK STATED THAT RIGHT AFTER THE GOZ DEVALUED THE ZIM DOLLAR FROM 36:1 TO 50:1, THE GOZ CRACKED DOWN ON THE PARALLEL MARKET, WHERE THE ZIM DOLLAR HAD BEEN TRADING AT BETWEEN 63:1 AND 65:1 AND WHERE 70 TO 80 PERCENT OF ALL FOREIGN CURRENCY TRANSACTIONS WERE OCCURRING. ACCORDING TO VAN DEN BRINK, THIS ACTION RESULTED IN AN INCREASE IN THE VALUATION OF THE ZIM DOLLAR FOR THE MAJORITY OF INDIVIDUALS AND COMPANIES INVOLVED IN FOREIGN CURRENCY EXCHANGE WHO HAD BEEN USING THE PARALLEL MARKET, AS THEY NOW HAD TO GET THE ZIM DOLLAR AT THE OFFICIAL RATE OF 50:1 VERSUS THE PRIOR PARALLEL MARKET RATE OF 63-65:1.

COULD AN MDC GOVERNMENT DO BETTER

15. (C) WHEN ASKED IF HE THOUGHT THE OPPOSITION PARTY MOVEMENT FOR DEMOCRATIC CHANGE (MDC) WOULD DO A BETTER

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JOB OF MANAGING THE ECONOMY, VAN DEN BRINK WAS DOUBTFUL. HE STATED THAT THE MDC PLAN FOR ECONOMIC REFORM IS "MORE IMF THAN THE IMF'S PLAN", BUT HE QUESTIONED WHETHER THE MDC WOULD HAVE THE POLITICAL SUPPORT TO IMPLEMENT IT. VAN DEN BRINK BELIEVES THAT THE WHITE ZIMBABWEAN BUSINESS COMMUNITY THAT SUPPORTS THE MDC, AND RECOGNIZES THE NEED FOR MAJOR STRUCTURAL CHANGES IN THE ECONOMY, HAS NO REAL POLITICAL POWER. THE MDC'S REAL POWER IS STILL TO BE FOUND IN THE LABOR UNION MOVEMENT FROM WHICH IT EMERGED, AND LABOR LIKELY WOULD OPPOSE MUCH OF THE MDC'S CURRENT ECONOMIC PLAN WERE THE PARTY TO GAIN POWER.

ANTI-MUGABE CONSPIRACY

16. (C) VAN DEN BRINK STATED THAT PRESIDENT MUGABE AND MANY GOZ MINISTERS BELIEVE THAT ZIMBABWE'S CURRENT ECONOMIC PROBLEMS AND THE FAILURE OF THE IMF AND WORLD BANK TO PROVIDE NEEDED FINANCIAL ASSISTANCE ARE ALL PART OF A BRITISH CONSPIRACY TO FORCE MUGABE TO RESIGN. VAN DEN BRINK BELIEVES THAT IN THIS POLITICAL CLIMATE IT IS IMPORTANT THAT THE USG BE CAREFUL IN ITS STATEMENTS ON ZIMBABWE SO AS NOT TO GIVE THE GOZ FODDER FOR USING IT AS A SCAPEGOAT FOR ITS OWN ECONOMIC PROBLEMS. HE ALSO
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CAUTIONED THAT THE MDC HAS TO BE CAREFUL IN WHAT IT SAYS, BECAUSE HE BELIEVES THAT MUGABE AND THE GOZ ARE LOOKING FOR AN EXCUSE TO LAUNCH A VIOLENT CRACKDOWN ON THE MDC OR TO IMPOSE MARTIAL LAW.

17. (C) COMMENT: THE RESREP'S COMMENTS ON THE FUNDAMENTAL STRUCTURAL PROBLEMS OF THE ZIMBABWEAN ECONOMY WERE RIGHT ON TARGET AND HIS ANALYSIS OF THE COUNTERPRODUCTIVE RESULTS OF SOME OF THE GOZ'S ECONOMIC RECOVERY PLAN ACTIONS WERE INSIGHTFUL. IT IS CLEAR THAT THE GOZ IS FAILING TO ADDRESS THE FUNDAMENTAL STRUCTURAL PROBLEMS OF THE ECONOMY, AND AS A RESULT THE ECONOMIC SITUATION IS LIKELY TO CONTINUE TO WORSEN IN THE NEAR TERM. THE FACT THAT ZIMBABWE HAS NOW FALLEN TO THE BOTTOM OF THE WORLD BANK RATING SYSTEM, IN THE SAME CATEGORY AS LIBERIA, IRAQ, AND BURMA, IS COMPELLING EVIDENCE OF HOW BAD THE GOZ'S ECONOMIC MISMANAGEMENT HAS BECOME. END COMMENT.

MCDONALD

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